

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Marcellus	County Cass
Fiscal Year End 12/31/07	Opinion Date May 22, 2008	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

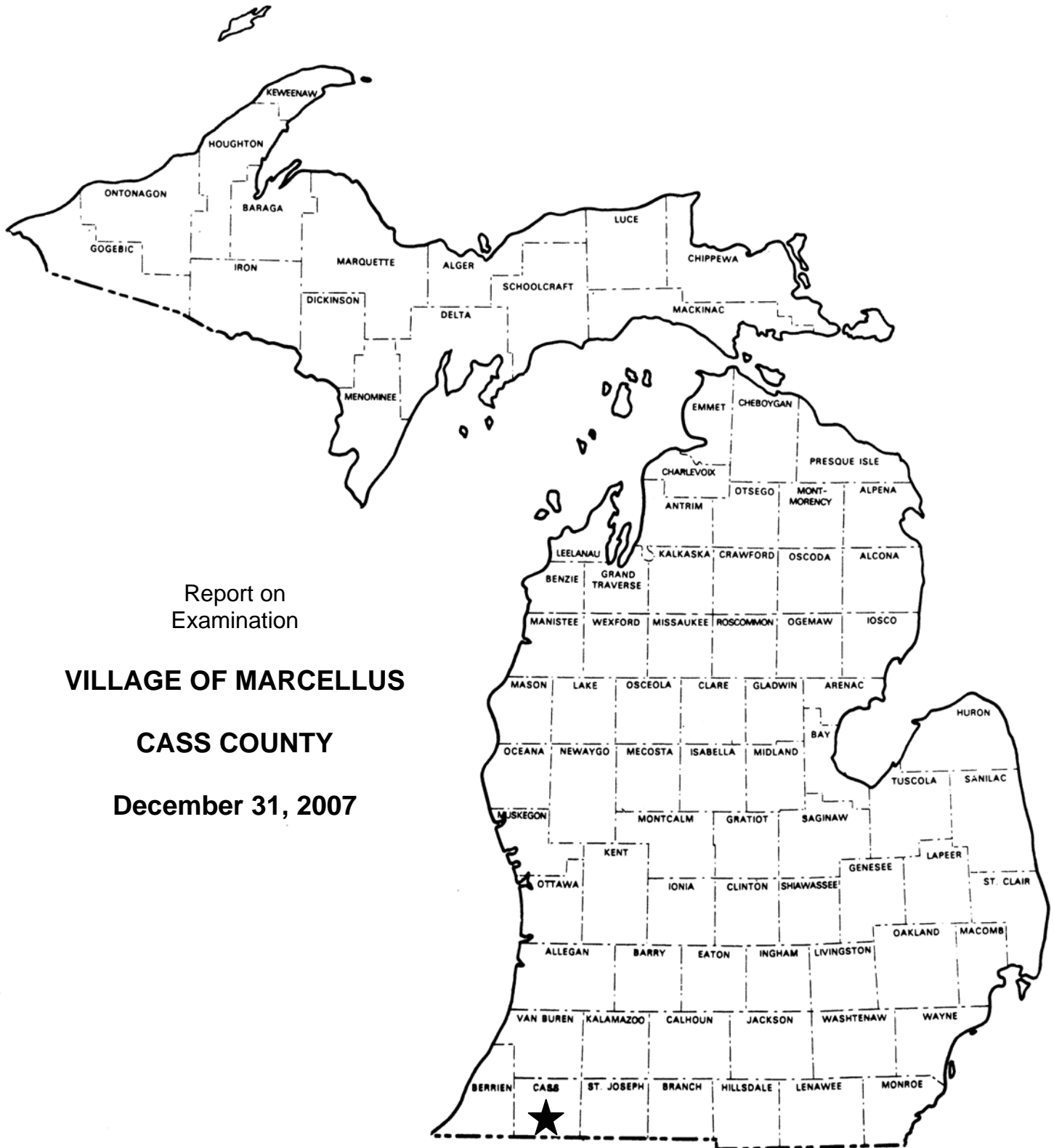
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☐ ☒ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Michigan Department of Treasury - Local Audit and Finance		Telephone Number 517-373-3227		
Street Address 430 West Allegan, 1st Floor Austin Bldg, PO Box 30728		City Lansing	State MI	Zip 48909
Authorizing CPA Signature		Printed Name Cary Jay Vaughn, CPA, CGFM		License Number 1101024355

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



VILLAGE OF MARCELLUS

VILLAGE COUNCIL

Larry Davis
President

Mike Dwyer
Council Member

Scott Wiles
Council Member

Sandra Albain
Council Member

April Easton
Council Member

Burke Webb
Council Member

Krista Jourdan
Clerk

Martha Peake
Treasurer

VILLAGE POPULATION--2000
1,193

TAXABLE VALUATION--2007
\$13,161,652



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 22, 2008

Village Council
Village of Marcellus
P.O. Box 428
Marcellus, Michigan 49067

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Marcellus, Cass County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Marcellus' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Marcellus, Michigan, as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2008 on our consideration of the Village of Marcellus' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 and the budgetary comparison information (Exhibits J through M) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Marcellus' basic financial statements. The general fund detail schedule of revenues and expenditures (Exhibits N through O) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MARCELLUS

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Government-Wide Statement of Net Assets	6
EXHIBIT B--Government-Wide Statement of Activities	7
EXHIBIT C--Balance Sheet--Governmental Funds	8
EXHIBIT D--Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	9
EXHIBIT E--Statement of Net Assets--Proprietary Funds	10
EXHIBIT F--Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds	11
EXHIBIT G--Statement of Cash Flows--Proprietary Funds	12
EXHIBIT H--Statement of Net Assets--Component Unit	13
EXHIBIT I--Statement of Activities--Component Unit	14
NOTES TO FINANCIAL STATEMENTS	15
<u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
EXHIBIT J--Budgetary Comparison Schedule--General Fund	33
EXHIBIT K--Budgetary Comparison Schedule--Major Street Major Special Revenue Fund	34
EXHIBIT L--Budgetary Comparison Schedule--Local Street Major Special Revenue Fund	35
EXHIBIT M--Budgetary Comparison Schedule--Municipal Street Major Special Revenue Fund	36

VILLAGE OF MARCELLUS

**TABLE OF CONTENTS
(CONTINUED)**

Page

SUPPLEMENTAL INFORMATION AND SCHEDULES

EXHIBIT N--Statement of Revenues--Budget and Actual--General Fund.....37

EXHIBIT O--Statement of Expenditures--Budget and Actual--General Fund38

Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards39

Schedule of Findings41

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's net assets increased approximately 2%, or \$17,783, from \$891,375 to \$909,158 for the year ended December 31, 2007. The investment in capital assets-net of related debt increased by \$58,352 and the restricted assets decreased \$57,427 due to the road preservation projects performed in 2007. The unrestricted net assets increased by \$16,858 due to the Village's increasing tax base and efforts to keep expenses down.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charges or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. All assets as such (except for assets invested in capital assets-net of related debt) are considered restricted.

Net assets as of year ended December 31, 2007 are as follows:

	Government Activities <u>2006</u>	Government Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Current Assets	\$ 533,877	\$ 498,896	\$ (34,981)	-7%
Noncurrent Assets	<u>404,842</u>	<u>463,194</u>	<u>58,352</u>	<u>14%</u>
Total Assets	<u>938,719</u>	<u>962,090</u>	<u>23,371</u>	<u>2%</u>
Current Liabilities	<u>47,344</u>	<u>52,932</u>	<u>5,588</u>	<u>12%</u>
Total Liabilities	<u>47,344</u>	<u>52,932</u>	<u>5,588</u>	<u>12%</u>
Net Assets				
Invested in Capital Assets	404,842	463,194	58,352	14%
Net of Related Debt				
Restricted	137,955	80,528	(57,427)	-42%
Unrestricted (Deficit)	<u>348,578</u>	<u>365,436</u>	<u>16,858</u>	<u>5%</u>
Total Net Assets	<u>\$ 891,375</u>	<u>\$ 909,158</u>	<u>\$ 17,783</u>	<u>2%</u>

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities <u>2006</u>	Business-Type Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Current Assets	\$ 730,891	\$ 671,872	\$ (59,019)	-8%
Noncurrent Assets	<u>3,197,793</u>	<u>3,672,671</u>	<u>474,878</u>	<u>15%</u>
Total Assets	<u>3,928,684</u>	<u>4,344,543</u>	<u>415,859</u>	<u>11%</u>
Current Liabilities	15,590	1,293	(14,297)	-92%
Long-Term Liabilities	<u>2,512,000</u>	<u>2,886,000</u>	<u>374,000</u>	<u>15%</u>
Total Liabilities	<u>2,527,590</u>	<u>2,887,293</u>	<u>359,703</u>	<u>14%</u>
Net Assets				
Invested in Capital Assets	685,793	962,171	276,378	40%
Net of Related Debt				
Unrestricted (Deficit)	<u>715,301</u>	<u>495,079</u>	<u>(220,222)</u>	<u>-31%</u>
Total Net Assets	<u>\$ 1,401,094</u>	<u>\$ 1,457,250</u>	<u>\$ 56,156</u>	<u>4%</u>

The following table shows the changes of the net assets as of the current year to the prior year:

	Governmental Activities <u>2006</u>	Governmental Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 129,590	\$ 154,178	\$ 24,588	19%
Operating Grants and Contributions	85,779	84,444	(1,335)	-2%
General Revenues				
Property Taxes	185,703	184,988	(715)	0%
State-Shared Revenues	138,664	136,191	(2,473)	-2%
Unrestricted Investment Earnings	11,982	7,705	(4,277)	-36%
Other	<u>12,468</u>	<u></u>	<u>(12,468)</u>	<u>100%</u>
Total Revenues	<u>564,186</u>	<u>567,506</u>	<u>3,320</u>	<u>1%</u>
Program Expenses				
General Government	129,777	127,600	(2,177)	-2%
Public Safety	113,985	122,269	8,284	7%
Public Works	276,015	283,345	7,330	3%
Community and Economic Development	521	313	(208)	-40%
Recreation and Culture		1,004	1,004	100%
Other	<u>24,681</u>	<u>15,192</u>	<u>(9,489)</u>	<u>-38%</u>
Total Expenses	<u>544,979</u>	<u>549,723</u>	<u>4,744</u>	<u>1%</u>
Change in Net Assets	<u>\$ 19,207</u>	<u>\$ 17,783</u>	<u>\$ (1,424)</u>	<u>-7%</u>

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

	Business-Type Activities 2006	Business-Type Activities 2007	Difference	Percent
Program Revenues				
Charges for Services	\$ 408,820	\$ 416,185	\$ 7,365	2%
Operating Grants and Contributions		10,500	10,500	100%
General Revenues				
Unrestricted Investment Earnings	30,510	37,394	6,884	23%
Total Revenues	439,330	464,079	24,749	6%
Program Expenses				
Water and Sewer	274,294	407,923	133,629	49%
Total Expenses	274,294	407,923	133,629	49%
Change in Net Assets	\$ 165,036	\$ 56,156	\$ (108,880)	-66%

Governmental Activities

The village's total governmental revenues increased \$17,052 and expenses increased \$64,618 as the village performed the road preservation projects this year.

	Governmental Activities 2006	Governmental Activities 2007	Amount Difference	Percent Difference
Revenues				
Taxes	\$ 184,305	\$ 184,854	\$ 549	0%
Licenses and Permits	5,179	5,846	667	13%
State Grants	217,934	213,695	(4,239)	-2%
Charges for Services	62,636	68,134	5,498	9%
Fines and Forfeits	80	20	(60)	-75%
Interest and Rentals	80,186	94,823	14,637	18%
Other	12,468		(12,468)	100%
Total Revenues	562,788	567,372	17,052	3%
Expenses				
General Government	119,940	117,501	(2,439)	-2%
Public Safety	113,985	122,269	8,284	7%
Public Works	282,630	263,122	(19,508)	-7%
Community and Economic Development	521	313	(208)	-40%
Recreation and Culture		1,004	1,004	100%
Other	24,681	15,192	(9,489)	-38%
Capital Outlay	1,700	88,674	86,974	5116%
Total Expenses	543,457	608,075	64,618	12%
Excess of Revenues Over Expenditures	19,331	(40,703)	(60,034)	-311%
Beginning Fund Balance	447,355	466,686	19,331	4%
Ending Fund Balance	\$ 466,686	\$ 425,983	\$ (47,566)	-10%

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

The Village's business-type activities consist of the Sewer and Water Fund. The Village provides sewage treatment and water to all of their residents. The revenues and expenses of the sewer system for the year have increased as the Village is in the process of overhauling the system. The revenues for the sewer and water increased as the Village raised rates to pay for the new water and sewer systems.

The Village's Funds

Our analysis of the Village's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2007 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Sewer Fund, Water Fund, and the Garbage Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government, public safety, and public works activities, which incurred expenses of approximately \$502,892 in 2007 of which the General Fund paid \$382,934. The Major, Local and Municipal Street Funds paid \$53,222, \$50,297, and \$16,439, respectively, for public works. These services are supported by the operating millage and State shared revenues. The Major Street Fund and the Local Street Fund account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's road system. The Municipal Street Fund accounts for the extra voted millage levied to assist the Major and Local Street Fund maintain the Village's road system. The Sewer and Water Fund are described above.

General Fund Budgetary Highlights

Over the course of the year, the Village's budget was prepared to take into account events during the year. No significant changes were made as revenues and expenses remained similar to the previous year.

Capital Asset and Debt Administration

At the end of 2007, the Village's governmental funds had \$463,194 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and road infrastructure; and \$3,672,671 invested in the sewer and water system. To pay for the sewer and water capital assets, the Village entered into various debt obligations with current outstanding debt totaling \$2,886,000.

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget and Rates

The Village's budget for 2008 has been modified to reflect the prior years' activities in a more accurate manner. The Village has also planned more tree work and street repairs for the 2008 fiscal year.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at: 177 East Main Street, Marcellus, MI 49067 (Phone Number 269-646-5485).

VILLAGE OF MARCELLUS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental	Business-Type		Component
	Activities	Activities	Total	Unit
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 26,591		\$ 26,591	\$ 14,336
Investments	338,632	\$ 680,615	1,019,247	
Receivables (Net)				
Taxes--Delinquent	19,981		19,981	
Accounts	8,838	31,977	40,815	
Employees	4,341		4,341	
Internal Balances	40,720	(40,720)	-	
Due From State	59,793		59,793	
Total Current Assets	498,896	671,872	1,170,768	14,336
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	463,194	3,672,671	4,135,865	
Total Assets	962,090	4,344,543	5,306,633	14,336
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	48,033	1,293	49,326	
Accrued Liabilities	4,899		4,899	
Total Current Liabilities	52,932	1,293	54,225	-
Long-Term Liabilities				
Bonds Payable--Due Within One Year		37,500	37,500	
Bonds Payable--Due in More Than One year		2,673,000	2,673,000	
Land Contract Payable--Due Within One Year		58,500	58,500	
Land Contract Payable--Due in More Than One Year		117,000	117,000	
Total Long-Term Liabilities	-	2,886,000	2,886,000	-
Total Liabilities	52,932	2,887,293	2,940,225	-
<u>NET ASSETS</u>				
Investment in Capital Assets--Net of Related Debt	463,194	962,171	1,425,365	
Restricted for				
Municipal Street	80,528		80,528	
Downtown Development Authority				14,336
Unrestricted	365,436	495,079	860,515	
Total Net Assets	\$ 909,158	\$ 1,457,250	\$ 2,366,408	\$ 14,336

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Functions/Programs	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	PRIMARY GOVERNMENT			Component Units
				Governmental Activities	Business-Type Activities	Total	
Primary Government							
Governmental Activities							
General Government	\$ 127,600	\$ 84,828		\$ (42,772)		\$ (42,772)	
Public Safety	122,269	1,216		(121,053)		(121,053)	
Public Works	283,345	68,134	\$ 84,444	(130,767)		(130,767)	
Community and Economic Development	313			(313)		(313)	
Recreation and Culture	1,004			(1,004)		(1,004)	
Other	15,192			(15,192)		(15,192)	
Total Governmental Activities	549,723	154,178	84,444	(311,101)	\$ -	(311,101)	
Business-Type Activities							
Sewer	208,292	207,135			(1,157)	(1,157)	
Water	199,631	209,050	10,500		19,919	19,919	
Total Business-Type Activities	407,923	416,185	10,500	-	18,762	18,762	
Total Primary Government	\$ 957,646	\$ 570,363	\$ 94,944	\$ (311,101)	\$ 18,762	\$ (292,339)	
Component Units							
Downtown Development Authority	\$ 47,176	\$ 50,214	\$ 1,110				\$ 4,148
Total Component Units	\$ 47,176	\$ 50,214	\$ 1,110	\$ -	\$ -	\$ -	\$ 4,148
General Revenues							
Property Taxes				\$ 184,988		\$ 184,988	
State-Shared Revenues				136,191		136,191	
Unrestricted Investment Earnings				7,705	\$ 37,394	45,099	
Total General Revenues--Special Items				328,884	37,394	366,278	\$ -
Change in Net Assets				17,783	56,156	73,939	4,148
Net Assets--Beginning				891,375	1,401,094	2,292,469	10,188
Net Assets--Ending				\$ 909,158	\$ 1,457,250	\$ 2,366,408	\$ 14,336

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT C

	MAJOR FUNDS				Total
	General	Major Street	Local Street	Municipal Street	Governmental Funds
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 26,591				\$ 26,591
Investments	204,531	\$ 43,294	\$ 1,637	\$ 89,170	338,632
Receivables					
Taxes--Delinquent	14,366			5,615	19,981
Accounts	8,838				8,838
Employees	4,341				4,341
Due From State	48,630	7,696	3,467		59,793
Due From Other Funds	105,043	1,643	26,907		133,593
Total Assets	\$ 412,340	\$ 52,633	\$ 32,011	\$ 94,785	\$ 591,769
<u>LIABILITIES AND FUND EQUITY</u>					
Liabilities					
Accounts Payable	\$ 47,620	\$ 206	\$ 207		\$ 48,033
Due to Other Funds		52,427	31,804	\$ 8,642	92,873
Accrued Liabilities	4,899				4,899
Deferred Revenue	14,366			5,615	19,981
Total Liabilities	66,885	52,633	32,011	14,257	165,786
Fund Equity					
Fund Balances					
Reserved for					
Major Street		-			-
Local Street			-		-
Municipal Street				80,528	80,528
Unreserved--Undesignated	345,455				345,455
Total Fund Equity	345,455	-	-	80,528	425,983
Total Liabilities and Fund Equity	\$ 412,340	\$ 52,633	\$ 32,011	\$ 94,785	\$ 591,769
Fund Balances--Total Governmental Funds					\$ 425,983
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					463,194
Revenues that do not provide current financial resources are not reported as revenue in the funds--delinquent property taxes.					19,981
Net Assets of Governmental Activities					\$ 909,158

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT D

	MAJOR FUNDS				Total
	General	Major Street	Local Street	Municipal Street	Governmental Funds
Revenues					
Taxes	\$ 132,043			\$ 52,811	\$ 184,854
Licenses and Permits	5,846				5,846
State Grants	136,191	\$ 51,081	\$ 23,019	3,404	213,695
Charges for Services	68,134				68,134
Fines and Forfeits	20				20
Interest and Rentals	E	2,084	371	4,485	6,940
Total Revenues	342,234	53,165	23,390	60,700	479,489
Expenditures					
Current					
General Government	117,501				117,501
Public Safety	122,269				122,269
Public Works	143,164	53,222	50,297	16,439	263,122
Community and Economic Development	313				313
Recreation and Cultural	1,004				1,004
Other	15,192				15,192
Capital Outlay	13,950	34,354	40,370		88,674
Total Expenditures	413,393	87,576	90,667	16,439	608,075
Excess of Revenues Over (Under) Expenditures	(71,159)	(34,411)	(67,277)	44,261	(128,586)
Other Financing Sources (Uses)					
Interfund Transfers In		34,354	67,277		101,631
Interfund Transfers (Out)		(19,908)		(81,723)	(101,631)
Total Other Financing Sources (Uses)	-	14,446	67,277	(81,723)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(71,159)	(19,965)	-	(37,462)	(128,586)
Fund Balance (Deficit)--January 1, 2007	328,731	19,965	-	117,990	466,686
Fund Balance (Deficit)--December 31, 2007	\$ 257,572	\$ -	\$ -	\$ 80,528	\$ 338,100
Net Change in Fund Balances--Total Governmental Funds					\$(128,586)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.					
Add--Capital Outlay					88,674
Deduct--Depreciation Expense					(30,322)
Net decrease in revenue between the 2007 delinquent taxes and the 2006 delinquent taxes collected during 2007.					134
Change in Net Assets of Governmental Activities					\$ (70,100)

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007**

EXHIBIT E

	Enterprise Funds			
	Major Funds			Total
	Sewer	Water	Garbage	Enterprise Funds
<u>ASSETS</u>				
Current Assets				
Investments	\$ 298,517	\$ 381,098	\$ 1,000	\$ 680,615
Accounts Receivable	16,289	15,688		31,977
Due From Other Funds		11,413		11,413
Total Current Assets	314,806	408,199	1,000	724,005
Noncurrent Assets				
Capital Assets--Net of Accumulated Depreciation	2,275,191	1,397,480		3,672,671
Total Noncurrent Assets	2,275,191	1,397,480	-	3,672,671
Total Assets	2,589,997	1,805,679	1,000	4,396,676
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	763	530		1,293
Due to Other Funds	51,133	-	1,000	52,133
Total Current Liabilities	51,896	530	1,000	53,426
Noncurrent Liabilities				
Bonds Payable--Due Within One Year	17,000	20,500		37,500
Bonds Payable--Due in More Than One Year	1,657,000	1,016,000		2,673,000
Land Contract Payable--Due Within One Year	58,500			58,500
Land Contract Payable--Due in More Than One Year	117,000			117,000
Total Noncurrent Liabilities	1,849,500	1,036,500	-	2,886,000
Total Liabilities	1,901,396	1,037,030	1,000	2,939,426
<u>NET ASSETS</u>				
Invested in Capital Assets				
Net of Related Debt	601,191	360,980		962,171
Unrestricted	87,410	407,669		495,079
Total Net Assets	\$ 688,601	\$ 768,649	\$ -	\$ 1,457,250

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Year Ended December 31, 2007

EXHIBIT F

	Enterprise Funds			Total
	Major Funds			Enterprise
	Sewer	Water	Garbage	Funds
Operating Revenues				
Charges for Services	\$ 207,135	\$ 209,050		\$ 416,185
Total Operating Revenues	207,135	209,050	\$ -	416,185
Operating Expenses				
Wages and Fringes	46,009	51,658		97,667
Operating Expenses	4,558	11,824		16,382
Repairs and Maintenance	-	5,451		5,451
Contracted Services	8,945	14,223		23,168
General Insurance	2,289	4,292		6,581
Utilities	2,691	8,469		11,160
Vehicle Rental	14,082	13,955		28,037
Depreciation	68,765	41,723		110,488
Total Operating Expenses	147,339	151,595	-	298,934
Operating Income (Loss)	59,796	57,455	-	117,251
Nonoperating Revenues (Expenses)				
Federal Grant		10,500		10,500
Interest Earned on Investments	18,683	18,711		37,394
Interest Expense	(60,953)	(48,036)		(108,989)
Total Nonoperating Revenues (Expenses)	(42,270)	(18,825)	-	(61,095)
Income (Loss) Before Contributions	17,526	38,630	-	56,156
Change in Net Assets	17,526	38,630	-	56,156
Total Net Assets--January 1, 2007	671,075	730,019	-	1,401,094
Total Net Assets--December 31, 2007	\$ 688,601	\$ 768,649	\$ -	\$ 1,457,250

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2007

EXHIBIT G

	Enterprise Funds			Total Enterprise Funds
	Major Funds			
	Sewer	Water	Garbage	
Cash Flows From Operating Activities				
Cash Received From Customers	\$ 207,627	\$ 208,937		\$ 416,564
Cash Payments to Employees for Services and Benefits	(45,625)	(51,186)		(96,811)
Cash Payments to Suppliers for Goods and Services	(47,386)	(58,545)		(105,931)
Net Cash Provided by Operating Activities	114,616	99,206	\$ -	213,822
Cash Flows From Noncapital Financing Activities				
Federal Grant		10,500		10,500
Due From Other Funds		(11,413)		(11,413)
Due To Other Funds	36,362	(20,089)	1,000	17,273
Net Cash Provided by Noncapital Financing Activities	36,362	(21,002)	1,000	16,360
Cash Flows From Capital and Related Financing Activities				
Acquisition of Capital Assets	(585,366)			(585,366)
Proceeds From Issuance of Bonds	469,000			469,000
Reduction of Debt	(75,500)	(19,500)		(95,000)
Interest Paid on Bonds	(60,953)	(48,036)		(108,989)
Net Cash Provided by Capital and Related Financing Activities	(252,819)	(67,536)	-	(320,355)
Cash Flows From Investing Activities				
Purchase of Investments	(49,304)	(50,415)	(1,000)	(100,719)
Interest on Cash Equivalents	18,683	18,711		37,394
Net Cash Provided by Investing Activities	(30,621)	(31,704)	(1,000)	(63,325)
Net Increase (Decrease) in Cash and Cash Equivalents	(132,462)	(21,036)	-	(153,498)
Cash and Cash Equivalents at Beginning of Year	132,462	21,036	-	153,498
Cash and Cash Equivalents at End of Year	\$ -	\$ -	\$ -	\$ -
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ 59,796	\$ 57,455	-	\$ 117,251
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	68,765	41,723		110,488
(Increase) Decrease in Accounts Receivable	492	(113)		379
Increase (Decrease) in Accounts Payable	(14,437)	141		(14,296)
Net Cash Provided by Operating Activities	\$ 114,616	\$ 99,206	\$ -	\$ 213,822

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
STATEMENT OF NET ASSETS
COMPONENT UNIT
December 31, 2007**

EXHIBIT H

	Downtown Development Authority
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$ 14,336</u>
Total Assets	<u>14,336</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET ASSETS</u>	
Unrestricted	<u>14,336</u>
Total Net Assets	<u><u>\$ 14,336</u></u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
STATEMENT OF ACTIVITIES
COMPONENT UNIT
For the Year Ended December 31, 2007**

EXHIBIT I

	<u>Downtown Development Authority</u>
Program Expenses	
General Government	\$ 3,339
Public Works	<u>43,837</u>
Total Program Expenses	<u>47,176</u>
Program Revenue	
Charges for Services--Rent	50,214
Other--Donations	<u>1,110</u>
Total Program Revenue	<u>51,324</u>
Net Program Revenue	<u>4,148</u>
Change in Net Assets	<u>4,148</u>
Net Assets	
Beginning of Year	<u>10,188</u>
End of Year	<u><u>\$ 14,336</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Marcellus is located in Cass County and covers an area of .7 square miles and operates under a general law village form of government. The village provides services to its 1,193 residents in many areas including: public safety (police), public works, and general government. The Village of Marcellus is a general law village governed by a six member council and president elected by the citizens of the village.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

The individual component units discussed below are included in the village's reporting entity because of the significance of their operational or financial relationships with the village.

DISCRETELY PRESENTED COMPONENT UNITS

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the Village of Marcellus, but for which the village is financially accountable, or its relationship with the village is such that exclusion would cause the financial statements to be misleading or incomplete.

Downtown Development Authority

The Downtown Development Authority exists to encourage economic development in the downtown area of the village. The governing body of the component unit is appointed by the village council. The authority's property tax revenues are levied under the taxing authority of the village and are included as part of the total tax levy and the village is secondarily liable for the authority's bonds. The component unit maintains a general fund as its sole operating fund. Separate financial statements of the individual component unit have not been issued as management believes these general purpose financial statements, including disclosures, contain complete information to constitute a fair presentation of the component unit.

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JOINT VENTURE

The village is a member of the Marcellus Area Emergency Services Association (MAESA); a joint venture of the Village of Marcellus and the Township of Marcellus, formed to provide fire protection within the participating municipalities. Costs of operations and capital expenditures are supported by contributions from the participating municipalities that take into account their respective SEV, population, and number of fire calls. MAESA is managed by a board which consists of three members from each of the participating municipalities. During 2007, the village contributed \$13,382 to MAESA. The board adopts the MAESA's budget and controls its financing. Complete financial statements for MAESA can be obtained from the MAESA's administration office located at: 177 East Main Street, Marcellus, Michigan 49067.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the village.

The village reports the following major governmental funds:

The General Fund is the village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The Municipal Street Fund accounts for the extra voted millage restricted for use on both the major and local streets.

The village reports the following major proprietary funds:

Sewer Fund accounts for the sewer operations of the village.

Water Fund accounts for the water operations of the village.

Beginning in 2008, the Garbage Fund will account for garbage operations of the village.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The village has elected to consistently apply all applicable FASB pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are collection fees for water and sewer consumption. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the village's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

The bank deposits are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property Taxes

The village's 2007 ad valorem tax is levied and collectible on July 1, 2007. It is the village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing operations. Property taxes are recognized when received. The 2007 State taxable valuation amounted to \$11,161,652, on which ad valorem taxes levied for all village purposes are \$182,942. There are 9.8852 mills for general operations and 4.0144 mills for street improvements and are recognized in the respective General and Municipal Street Fund.

Uncollected real property taxes, which become delinquent October 1, are purchased by Cass County and paid to the village in June of the subsequent year. The delinquent taxes at December 31st are recorded as delinquent taxes receivable and are offset by deferred revenue.

Accounts Receivable

The accounts receivable for the village are recorded in the General, Water, and Sewer Funds. The receivables are based on the garbage, sewer, and water services provided by the village. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer's tax bill. The receivable for the garbage services in the General Fund is \$6,643, the receivable for the Sewer Fund is \$16,289, and the receivable for the Water Fund is \$15,688, respectively. The receivables are not offset by deferred revenue. The General Fund also has an accounts receivable amount of \$2,195 for a franchise fee receivable due from the local cable company at December 31, 2007, making the total receivable for the General Fund \$8,838.

Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund and Municipal Street Fund consist of uncollected real property taxes levied July 1, 2007, which have not been collected at December 31, 2007. The delinquent property taxes for the General and Municipal Street Fund are \$14,366 and \$5,615, respectively, and are offset by deferred revenue in the governmental fund financial statements.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Infrastructure assets consist of for example roads, sidewalks, and similar items. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

	<u>Governmental Funds</u>	<u>Enterprise Funds</u>
Buildings	20 to 40 years	
Vehicles	5 to 10 years	
Equipment	5 to 10 years	5 to 10 years
Infrastructure--Roads	10 to 20 years	
Sewer System		40 years
Water System		40 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the village council for the General Fund and Special Revenue Funds after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The village council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

During the year, the village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Other Professional	\$ 8,000	\$ 9,814	\$ (1,814)
Building and Grounds	22,655	24,864	(2,209)
Public Safety			
Emergency Services	13,000	13,382	(382)
Building Inspector		1,355	(1,355)
Public Works			
Department of Public Works	20,000	73,405	(53,405)
Community and Economic Development			
Planning Commission	300	313	(13)
Capital Outlay	10,000	13,950	(3,950)
Major Street Fund			
Public Works	53,100	87,576	(34,476)
Local Street Fund			
Public Works	24,000	90,667	(66,667)
Municipal Street Fund			
Transfers (Out)	25,382	81,723	(56,341)

NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL) 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

The village has designated three banks for the deposit of village funds. The investment policy adopted by the village council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The village's deposits and investment policy are in accordance with statutory authority.

At year end, the village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 26,591		\$ 26,591	\$14,336
Investments	<u>338,632</u>	<u>\$680,615</u>	<u>1,019,247</u>	<u></u>
Total	<u><u>\$365,223</u></u>	<u><u>\$680,615</u></u>	<u><u>\$1,045,838</u></u>	<u><u>\$14,336</u></u>

At year end, the village's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents (Checking and Savings Accounts, Certificates of Deposit)	\$ 26,341
Investments in Mutual Funds	1,019,247
Petty Cash and Cash on Hand	<u>250</u>
Total	<u><u>\$ 1,045,838</u></u>

The bank balance of the primary government's deposits is \$35,055, of which \$35,055 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$14,336 of which \$14,336 was covered by Federal depository insurance.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, generally, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the village manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

Information about the sensitivity of the fair values of the village's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the village's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Government Securities	<u>\$1,019,247</u>	<u>\$1,019,247</u>	<u> </u>	<u> </u>
Total	<u>\$1,019,247</u>	<u>\$1,019,247</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the village contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the village's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Rated Debt Investments</u>			
	<u>Fair Value</u>	<u>Rating S & P</u>	<u>Fair Value</u>	<u>Rating Moody's</u>
Mutual Funds	<u>\$1,019,247</u>	AAAm	<u>\$1,019,247</u>	Aaa
Total	<u>\$1,019,247</u>		<u>\$1,019,247</u>	

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE D--INTERFUND RECEIVABLES AND PAYABLES/TRANSFERS

The inter-fund receivables and payables for the primary government are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Primary Government		Primary Government	
General	\$ 105,043	Sewer	\$ 51,133
Major Street	1,643	Garbage	1,000
Local Street	26,907	Major Street	52,427
Sewer	11,413	Local Street	31,804
		Municipal Street	8,642
Total Primary Government	<u>\$ 145,006</u>	Total Primary Government	<u>\$ 145,006</u>

The transfers for the primary government are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
Major Street	\$ 34,354	Major Street	\$ 19,908
Local Street	67,277	Municipal Street	81,723
Total Primary Government	<u>\$ 101,631</u>	Total Primary Government	<u>\$ 101,631</u>

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

Capital asset activity of the village's governmental funds for the current year, as follows:

<u>Governmental Activities</u>	<u>Account Balances 12/31/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/07</u>
Capital Assets Not Being Depreciated				
Land and Improvements	<u>\$ 15,000</u>	<u> </u>	<u> </u>	<u>\$ 15,000</u>
Subtotal	<u>15,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>15,000</u>
Capital Assets Being Depreciated				
Buildings	601,409			601,409
Equipment	70,131	1,950		72,081
Vehicles	63,500	12,000		75,500
Infrastructure--Roads	<u>42,328</u>	<u>74,724</u>	<u> </u>	<u>117,052</u>
Total	<u>777,368</u>	<u>88,674</u>	<u>-</u>	<u>866,042</u>
Less Accumulated Depreciation				
Buildings	274,726	15,620		290,346
Equipment	52,202	4,659		56,861
Vehicles	58,713	6,983		65,696
Infrastructure--Roads	<u>1,885</u>	<u>3,060</u>	<u> </u>	<u>4,945</u>
Total	<u>387,526</u>	<u>30,322</u>	<u>-</u>	<u>417,848</u>
Net Capital Assets Being Depreciated	<u>389,842</u>	<u>88,674</u>	<u>30,322</u>	<u>448,194</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 404,842</u>	<u>\$ 88,674</u>	<u>\$ 30,322</u>	<u>\$ 463,194</u>

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Capital asset activity of the village's enterprise funds for the current year, as follows:

<u>Business-Type Activities</u>	<u>Account Balances 12/31/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/07</u>
Capital Assets Being Not Depreciated				
Land-Sewer System		\$ 234,000		\$ 234,000
Construction in Progress (Sewer System)	<u>\$ 1,630,570</u>		<u>\$ 1,630,570</u>	<u>-</u>
Subtotal	<u>1,630,570</u>	<u>234,000</u>	<u>1,630,570</u>	<u>234,000</u>
Capital Assets Being Depreciated				
Sewer System	763,446	1,981,936		2,745,382
Water System	<u>1,542,579</u>			<u>1,542,579</u>
Total	<u>2,306,025</u>	<u>1,981,936</u>	<u>-</u>	<u>4,287,961</u>
Less Accumulated Depreciation				
Sewer System	635,426	68,765		704,191
Water System	<u>103,376</u>	<u>41,723</u>		<u>145,099</u>
Total	<u>738,802</u>	<u>110,488</u>	<u>-</u>	<u>849,290</u>
Net Capital Assets Being Depreciated	<u>1,567,223</u>	<u>1,981,936</u>	<u>110,488</u>	<u>3,438,671</u>
Business-Type Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 3,197,793</u>	<u>\$ 2,215,936</u>	<u>\$ 110,488</u>	<u>\$ 3,672,671</u>

Depreciation expense was charged to programs of the primary government, as follows:

Governmental Activities	
General Government	\$ 10,099
Public Works	<u>20,223</u>
Total Governmental Activities	<u>\$ 30,322</u>
Business-Type Activities	
Sewer	\$ 68,765
Water	<u>41,723</u>
Total Business-Type Activities	<u>\$ 110,488</u>

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The individual long-term debt of the primary government of the village, and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>01/01/07</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/07</u>	<u>Due Within</u> <u>One Year</u>
<u>Enterprise--Water Fund</u>				
Village of Marcellus Water Fund Contractual Bonds, issued by the Farmers Home Administration, \$300,000, maturing serially through 2020 in the two amounts of \$5,000 and \$10,000, and at an interest rate of 5.0%.	\$ 140,000	\$ (10,000)	\$ 130,000	\$ 10,000
Village of Marcellus Water Fund Revenue Bonds, issued by the United State Department of Agriculture, \$792,000 maturing serially through 2042, and at an interest rate of 4.5%.	769,000	(8,000)	761,000	9,000
Village of Marcellus Water Fund Revenue Bonds, issued by the United States Department of Agriculture, \$150,000 maturing serially through 2043 and at an interest rate of 4.375%.	147,000	(1,500)	145,500	1,500
Village of Marcellus Sewer Fund Revenue Bonds, issued by the United States Department of Agriculture, \$1,707,000 maturing serially through 2045 and at an interest rate of 4.25%.	1,456,000	235,000 (17,000)	1,674,000	17,000
Land Contract Payable of \$234,000 payable through 2010 at annual installments of \$58,500 at an interest rate of 4%.		234,000 (58,500)	175,500	58,500
Total Long-Term Debt	<u>\$2,512,000</u>	<u>\$ 374,000</u>	<u>\$2,886,000</u>	<u>\$ 96,000</u>

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Long-Term Debt--Enterprise Fund (Water Fund)

The annual water fund principal and interest required through maturity for the bonds payable outstanding as of December 31, 2007, are as follows:

Date of Issue: September 1, 1987

Amount: \$300,000

Purpose: Water Bonds

<u>Annual Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity September 1</u>	<u>Interest Payments</u>	<u>Total Annual Requirements</u>
5.0%	2008	\$ 10,000	\$ 6,500	\$ 16,500
	2009	10,000	6,000	16,000
	2010	10,000	5,500	15,500
	2011	10,000	5,000	15,000
	2012	10,000	4,500	14,500
	2013-2017	50,000	15,000	65,000
	<u>2018-2019</u>	<u>30,000</u>	<u>2,750</u>	<u>32,750</u>
		<u>\$ 130,000</u>	<u>\$ 45,250</u>	<u>\$175,250</u>

Interest is payable semi-annually at the rate indicated on March 1 and September 1.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

2003 Water System Improvement Bonds

The 2003 Water System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$792,000 with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Year</u>	<u>Principal</u>
2008	\$ 9,000
2009	9,000
2010	10,000
2011	10,000
2012	11,000
2013-2017	60,000
2018-2022	75,000
2023-2027	94,000
2028-2032	115,000
2033-2037	145,000
2038-2042	180,000
2043	43,000
	<u>\$761,000</u>

The 2004 Water System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$150,000 with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Year</u>	<u>Principal</u>
2008	\$ 1,500
2009	1,500
2010	1,500
2011	2,000
2012	2,000
2013-2017	10,500
2018-2022	13,500
2023-2027	16,500
2028-2032	21,000
2033-2037	27,000
2038-2042	33,500
2043-2044	15,000
	<u>\$145,500</u>

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

2005 Sewage Disposal System Improvement Bonds

The 2005 Sewage Disposal System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a sewage disposal system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$1,707,000 with interest payable at 4.25% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

<u>Year</u>	<u>Principal</u>
2008	\$ 17,000
2009	18,000
2010	19,000
2011	20,000
2012	21,000
2013-2017	120,000
2018-2022	148,000
2023-2027	185,000
2028-2032	230,000
2033-2037	287,000
2038-2042	357,000
2043-2045	252,000
	<u>\$ 1,674,000</u>

Land Contract Payable

On December 20, 2007, the Village of Marcellus entered into a land contract to purchase 51½ acres of land for the expansion of the Village's Sewer System. The land contract is payable over a four year period at 4% per annum with interest payable annually.

<u>Year</u>	<u>Principal</u>
2008	\$ 58,500
2009	58,500
2010	58,500
	<u>\$ 175,500</u>

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE G--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The village maintains two enterprise funds that provide water and sewer services. The third fund, the garbage fund, was established at year end to begin accounting for the activities in 2008. As such, the segment information is not presented for 2007. Segment information for the year ended December 31, 2007, as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating Revenues	\$ 207,135	\$ 209,050	\$ 416,185
Operating Income (Loss)	59,796	57,455	117,251
Nonoperating Revenue (Expenses)	(42,270)	(18,825)	(61,095)
Net Income (Loss)	17,526	38,630	56,156
Land, Buildings, and Equipment			
Additions	585,366		585,366
Depreciation Expense	68,765	41,723	110,488
Net Working Capital	262,910	407,669	670,579
Long-Term Debt	1,849,500	1,036,500	2,886,000
Total Assets	2,589,997	1,805,679	4,395,676
Total Net Assets	688,601	768,649	1,457,250

NOTE H--RISK MANAGEMENT

The Village of Marcellus is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees' injuries (workers' compensation). The village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT J

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Taxes	\$ 125,000	\$ 125,000	\$ 132,043	\$ 7,043
Licenses and Permits	4,830	4,830	5,846	1,016
State Grants	108,369	108,369	136,191	27,822
Charge for Services	64,410	64,410	68,134	3,724
Fines and Forfeitures	-	-	20	20
Interest and Rentals	72,000	72,000	87,883	15,883
Total Revenue	374,609	374,609	430,117	55,508
Expenditures				
General Government	143,984	143,984	117,501	26,483
Public Safety	127,656	127,656	122,269	5,387
Public Works	96,500	96,500	143,164	(46,664)
Community and Economic Development	300	300	313	(13)
Recreational and Cultural	1,500	1,500	1,004	496
Other	39,000	39,000	15,192	23,808
Capital Outlay	10,000	10,000	13,950	(3,950)
Total Expenditures	418,940	418,940	413,393	5,547
Excess of Revenues Over (Under) Expenditures	(44,331)	(44,331)	16,724	61,055
Fund Balance--January 1, 2007	274,037	274,037	328,731	54,694
Fund Balance--December 31, 2007	\$ 229,706	\$ 229,706	\$ 345,455	\$ 115,749

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT K

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State Grants				
Michigan Transportation Funds	\$ 49,800	\$ 49,800	\$ 51,081	\$ 1,281
Interest and Rentals			2,084	2,084
Total Revenues	49,800	49,800	53,165	3,365
Expenditures				
Public Works				
Preservation		-	34,354	(34,354)
Routine and Preventive Maintenance	53,100	53,100	51,936	1,164
Winter				
Routine and Preventive Maintenance	-	-	1,286	(1,286)
Total Expenditures	53,100	53,100	87,576	(34,476)
Excess of Revenues Over (Under) Expenditures	(3,300)	(3,300)	(34,411)	(31,111)
Other Financing Sources (Uses)				
Interfund Transfers In			34,354	34,354
Interfund Transfers (Out)			(19,908)	(19,908)
Total Other Financing Sources (Uses)	-	-	14,446	14,446
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(3,300)	(3,300)	(19,965)	(16,665)
Fund Balance--January 1, 2007	7,321	7,321	19,965	12,644
Fund Balance--December 1, 2007	\$ 4,021	\$ 4,021	\$ -	\$ (4,021)

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State Grants				
Michigan Transportation Funds	\$ 24,000	\$ 24,000	\$ 23,019	\$ (981)
Interest and Rentals			371	371
Total Revenues	24,000	24,000	23,390	(610)
Expenditures				
Public Works				
Preservation			40,370	(40,370)
Routine and Preventive Maintenance	24,000	24,000	47,797	(23,797)
Nonmotorized Improvements			2,500	(2,500)
Total Expenditures	24,000	24,000	90,667	(66,667)
Excess of Revenues Over (Under) Expenditures	-	-	(67,277)	(67,277)
Other Financing Sources (Uses)				
Interfund Transfers In			67,277	67,277
Total Other Financing Sources (Uses)	-	-	67,277	67,277
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	-	-
Fund Balance--January 1, 2007	-	-	-	-
Fund Balance--December 1, 2007	\$ -	\$ -	\$ -	\$ -

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

EXHIBIT M

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 50,000	\$ 50,000	\$ 52,811	\$ 2,811
State Grants			3,404	3,404
Interest and Rentals	1,500	1,500	4,485	2,985
Total Revenues	51,500	51,500	60,700	9,200
Expenditures				
Public Works	80,000	80,000	16,439	63,561
Total Expenditures	80,000	80,000	16,439	63,561
Excess of Revenues Over (Under) Expenditures	(28,500)	(28,500)	44,261	72,761
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(25,382)	(25,382)	(81,723)	(56,341)
Total Other Financing Sources (Uses)	(25,382)	(25,382)	(81,723)	(56,341)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(53,882)	(53,882)	(37,462)	16,420
Fund Balance--January 1, 2007	88,605	88,605	117,990	29,385
Fund Balance--December 1, 2007	\$ 34,723	\$ 34,723	\$ 80,528	\$ 45,805

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT N

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
<u>REVENUES</u>				
Property Taxes				
Current and Delinquent	\$ 125,000	\$ 125,000	\$ 132,043	\$ 7,043
Total Property Taxes	125,000	125,000	132,043	7,043
Licenses and Permits				
Building Permits			1,216	1,216
Peddler Permits	30	30	26	(4)
Franchise Fees	4,800	4,800	4,604	(196)
Total Licenses and Permits	4,830	4,830	5,846	1,016
State Aid				
Revenue Sharing	108,369	108,369	136,191	27,822
Total State Aid	108,369	108,369	136,191	27,822
Charge for Services				
Garbage Use Charges	64,410	64,410	68,134	3,724
Total Charge for Services	64,410	64,410	68,134	3,724
Fines and Forfeitures				
Traffic and Ordinance Fines	-	-	20	20
Total Fines and Forfeitures	-	-	20	20
Interest and Rentals				
Vehicle Rental	58,000	58,000	66,978	8,978
Village Rental	12,500	12,500	12,000	(500)
Internet Tower Rent			1,200	1,200
Interest	1,500	1,500	7,705	6,205
Total Interest and Rentals	72,000	72,000	87,883	15,883
Total Revenue	\$ 374,609	\$ 374,609	\$ 430,117	\$ 55,508

VILLAGE OF MARCELLUS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT O

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 18,244	\$ 18,244	\$ 10,240	\$ 8,004
Other Professional	8,000	8,000	9,814	(1,814)
Attorney Fees	12,500	12,500	8,375	4,125
Clerk	47,970	47,970	41,018	6,952
Treasurer	34,615	34,615	23,190	11,425
Building and Grounds	22,655	22,655	24,864	(2,209)
Total General Government	143,984	143,984	117,501	26,483
Public Safety				
Police	114,656	114,656	107,532	7,124
Emergency Services	13,000	13,000	13,382	(382)
Building Inspector			1,355	(1,355)
Total Public Safety	127,656	127,656	122,269	5,387
Public Works				
Department of Public Works	20,000	20,000	73,405	(53,405)
Street Lights	14,500	14,500	14,061	439
Refuse Collection	62,000	62,000	55,698	6,302
Total Public Works	96,500	96,500	143,164	(46,664)
Community and Economic Development				
Planning	300	300	313	(13)
Total Community and Economic Development	300	300	313	(13)
Recreational and Cultural				
Parks and Recreation	1,500	1,500	1,004	496
Total Recreational and Cultural	1,500	1,500	1,004	496
Other				
Insurance and Fringes	39,000	39,000	15,192	23,808
Total Other	39,000	39,000	15,192	23,808
Capital Outlay	10,000	10,000	13,950	(3,950)
Total Capital Outlay	10,000	10,000	13,950	(3,950)
Total Expenditures	\$ 418,940	\$ 418,940	\$ 413,393	\$ 5,547



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 22, 2008

Village Council
Village of Marcellus
P.O. Box 428
Marcellus, Michigan 49067

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, the component unit, each major fund, and the aggregate remaining fund information of the Village of Marcellus, Cass County, Michigan, as of and for the year ended December 31, 2007, and have issued our report thereon dated May 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Marcellus' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Marcellus's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Marcellus's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the previous paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the village's ability to initiate, authorize, record,

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the village's financial statements that is more than inconsequential will not be prevented or detected by the village's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting and are documented as Findings 2007-1, 2005-2, 2005-4, 2005-5, 2005-7, and 2005-9.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-1, 2005-2, 2005-4, and 2005-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Marcellus's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as item 2005-11.

This report is intended solely for the information of Marcellus' Village Council and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MARCELLUS

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the village's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The following conditions are considered material weaknesses.

MATERIAL WEAKNESSES

Lack of Monitoring/Segregation of Duties

Finding 2007-1

Condition: As reported in the previous audit, we noted the following internal control weaknesses which were not addressed or corrected during the 2007 fiscal year by the village council.

1. There is one individual who performs all procedures for reconciliation of the bank statements without management oversight by the village council. We found the bank statements were not reconciled accurately and the sewer construction project was not recorded in the Village of Marcellus general ledger.
2. Also, there is no independent review of the payroll process that is processed entirely by the clerk. We found that payroll was not properly allocated to the various funds, overstating expenditures in the General Fund and understating the expenditures/expenses in the other funds.
3. We found that there is an overall lack of monitoring expenditures by the village council. The budget was not amended during fiscal year 2007, creating an inaccurate working tool for the council to use in making its financial decisions. An example of this is budgeting \$20,000 for the Department of Public Works while the actual expenditures were \$73,405 during the fiscal year.

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) defines monitoring as assessing the quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. It further states that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

VILLAGE OF MARCELLUS

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

The Standards of Internal Control for the Federal Government defines control activities as internal control activities that help to ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. Segregation of Duties is a key control activity and requires that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Further, MCL 141.437 states: "a deviation from the original general appropriations act shall not be made without amending the general appropriations act. The legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

Recommendation: We recommend that the village council establish procedures to segregate duties to ensure that the clerk is not solely responsible for the bank reconciliation and payroll functions. Further, we recommend that the village council begin and continue to monitor the activities listed above to ensure that the internal controls are not only established but adhered to as directed by the village council. These policies should also include the monitoring and amending the budget during the year as necessary.

Bank Reconciliations

Finding 2005-2

Condition: The December general checking account was not entirely reconciled at the beginning of the audit as there was an unexplained variance of \$4,647. The variance is due to a second payroll withdrawal from the checking account that should not have been withdrawn. The Sewer Fund also had a cash balance of \$115,933 in its construction cash line item despite the bank account being closed. Finally, there was a \$93 credit balance in the Water Fund's certificate of deposit line item despite the village no longer having any certificates of deposit. Also, the clerk is the only individual preparing and reviewing the bank reconciliations.

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that "all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel." A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. The clerk's records must agree with or reconcile to the treasurer's and the bank's records.

VILLAGE OF MARCELLUS

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

Recommendation: As noted in previous audits, we strongly recommend that all bank accounts be reconciled on a timely basis with the accounting records and that all bank accounts be recorded in the accounting records. The clerk and the treasurer should then compare the balances of the general ledger cash balances to the bank reconciliations. The activity in the bank should reconcile back to the general ledger and provide a means to correct errors in posting. The village must be able to determine how much money each fund has in a particular bank and/or investment account.

Capital Assets

Finding 2005-4

Condition: As noted in previous audits, the village does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the village to update the capital assets listing for additions and deletions. For governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

Recommendation: We recommend that the village develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the village should be taken and included in the permanent records of the village and updated annually.
- 2) All assets owned by the village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the village to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the village should keep records on all assets which include the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset	-Accumulated Depreciation of the Asset

VILLAGE OF MARCELLUS

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES (Continued)

- 4) Capital assets that meet the village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well.

Posting of Payroll Expenditures

Finding 2005-5

Condition: The wages and reimbursements of the DPW employees and building and grounds employees were posted to the village council's wage line-item in the general ledger. Also, the DPW employees' salaries posted to the General Fund consisted of expenses that belong not only to the General Fund, but also the Major Street Fund, Local Street Fund, Sewer Fund, and Water Fund.

Criteria: According to the Uniform Chart of Accounts issued by the Michigan Department of Treasury, the village council expenses should only include direct expenditures, which include salaries and travel costs that represent expenditures incurred by members themselves or by a committee of the governing body.

All payroll postings to the general ledger should be posted to the individual funds and activities to which the payroll expenses are directly related. Public Act 51 of 1951 requires that actual costs (including payroll) be used in preparation of the Act 51 report (required by the Michigan Department of Transportation).

Recommendation: We recommend that the village reassess its payroll processing system to ensure that the payroll expenses are directly posted to the proper funds and activities.

VILLAGE OF MARCELLUS

SCHEDULE OF FINDINGS

CONTROL DEFICIENCIES

Our audit also disclosed the following significant deficiencies not considered to be material weaknesses which we wish to point out for consideration by the management of the Village of Marcellus.

Employee and Employer Portion of Payroll Withholdings

Finding 2005-7

Condition: As noted in the prior audit, we found that the village is incorrectly paying the employees' portion and employer's portion of the taxes out of account 101-850 activity.

Criteria: The employees' portion of the taxes should be transferred to a liability line-item. When payment is made to the State or Internal Revenue Service, the employees' portion of the taxes due should be removed from the liability line-item. The employer's portion should be disbursed from the other respective general fund activities (village council, clerk, department of public works).

Recommendation: We strongly recommend that the village comply with these standards in accounting for payroll taxes.

Accruals

Finding 2005-9

Condition: Accruals (accounts receivable and accounts payable), the recording of the revenues in the accounting period to which they relate, were not recorded for the utilities in the enterprise fund or governmental funds. The village also does not record the December and February distribution of State Revenue Sharing, the November and December motor transportation funding, or the second payment received from the cable company for franchise fees as a receivable. Therefore, the corresponding revenue accounts are misstated.

Criteria: Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable and accounts payable be established to properly match the fiscal year's revenues and expenses. Enterprise funds are to be maintained on a full accrual basis of accounting.

Recommendation: As in the previous audits, we recommend that the village record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective general ledger accounts.

VILLAGE OF MARCELLUS

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE

Expenditures in Excess of Appropriations

Finding 2005-11

Condition: Our examination of procedures used by the village to adopt and maintain operating budgets for budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The village's 2007 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled at the activity level. As detailed below, actual 2007 expenditures exceeded the village council's approved budget allocations for several general fund activities.

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and Special Revenue Funds as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Other Professional	\$ 8,000	\$ 9,814	\$ (1,814)
Building and Grounds	22,655	24,864	(2,209)
Public Safety			
Emergency Services	13,000	13,382	(382)
Building Inspector		1,355	(1,355)
Public Works			
Department of Public Works	20,000	73,405	(53,405)
Community and Economic Development			
Planning Commission	300	313	(13)
Capital Outlay	10,000	13,950	(3,950)
Major Street Fund			
Public Works	53,100	87,576	(34,476)
Local Street Fund			
Public Works	24,000	90,667	(66,667)
Municipal Street Fund			
Transfers (Out)	25,382	81,723	(56,341)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Direction: As in previous audits, we direct the village council to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.